Franchise Tax Board

ANALYSIS OF AMENDED BILL

Author: Assm. Rev. & Tax Comm. Analyst: Jeff Garnier Bill Number: AB 1208

Related Bills: AB 2797 (1998) Telephone: 845-5322 Amended Date: 8/16 & 8/23/99

Attorney: Patrick Kusiak Sponsor:

SUBJECT: Conformity Act of 1999

____ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _________.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _________.

____ FURTHER AMENDMENTS NECESSARY.

____ DEPARTMENT POSITION CHANGED TO ________________________.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED/AMENDED 07/01/99 STILL APPLIES.

____ OTHER - See comments below.

SUMMARY OF BILL

The Personal Income Tax Law (PITL) and the Bank and Corporation Tax Law (B&CTL), in general, conform to the Internal Revenue Code (IRC) either by incorporating the IRC by reference as of a "specified date" or by stand alone language which mirrors the federal provision. California law is conformed to the IRC as of January 1, 1998, unless a specific provision provides otherwise. This bill would change the specified date from January 1, 1998, to January 1, 1999, for taxable and income years beginning on or after January 1, 1999. Changing the specified date automatically conforms to all changes from January 1, 1998, through December 31, 1998, to IRC sections that have been previously incorporated by reference. Thus, California law would conform to numerous changes made to federal income tax law by the IRS Restructuring and Reform Act of 1998 and certain other federal acts enacted during 1998.

This bill also would make numerous changes to specifically not conform to particular federal provisions or to modify the general conformity to certain items in the IRC. Additionally, numerous technical changes regarding cross references and the deletion of unnecessary language that was used to conform to federal law changes subsequent to January 1, 1998, and prior to January 1, 1999, are being made by this bill.

This bill also contains four of the department's legislative proposals: "Repeal of Capital Loss Limitation and Carryover Provisions for Corporations," "Revise the LLC Annual Franchise Tax Due Date to the Date of Return," and "Taxation of Non and Part-Year Residents and the Alimony Deduction," and the "Elimination of the Tentative Minimum Tax Limitation on Personal Exemptions".

Board Position:			Department Director	Date
X S	NA	NP		
SA	O	NAR		
N	OUA	PENDING	**Johnnie Lou Rosas**	**8/31/1999**

SUMMARY OF AMENDMENT

The August 16 and August 23, 1999, amendments made the following changes:

- Add a provision that would conform to the IRS Restructuring and Reform Act of 1998 (the IRS Reform Act) provision to suspend the statute of limitations (SOL) for certain refund claims for periods during which the taxpayer is "financially disabled."
- Add a provision that would eliminate the tentative minimum tax limitation on personal exemption credits by allowing the personal exemption credits to reduce regular tax below tentative minimum tax.
- Add a provision that would eliminate the requirement that the unrecognized gain on charitable contributions of appreciated property be considered an Alternative Minimum Tax (AMT) item. This provision would conform state law to federal AMT treatment of charitable contributions of appreciated property.
- Add a provision that would provide that nonresidents prorate the deduction for alimony payments in the same manner as tax is prorated.
- Remove a provision from the bill that would have allowed the "Profit Split Method" for Computing Income for Corporations Filing Combined Reports.
- Add a provision that would prevent this bill from chaptering out two provisions of SB 94. Because of the "date change," without specific language stating otherwise, this bill would conform to the IRS Reform Act's "Bill of Rights" provision eliminating interest differentials between under- and overpayments. SB 94 would conform to this provision. This bill conforms to a technical change in the Tax and Trade Extension Act of 1998 relating to the abatement of interest in Presidentially declared 1997 disasters (discussed on page 20 of the April 19, 1999, analysis). SB 94 conforms to an IRS Reform Act's "Bill of Rights" provision extending the abatement of interest to 1998 and later Presidentially declared disasters. Without this provision, this bill could chapter out the two SB 94 provisions.
  The amendment also double joins this bill to SB 680, to prevent any chaptering problems regarding the personal exemption credit provision contained in this bill.
- Make additional technical corrections to the Revenue and Taxation Code including a cross-reference regarding water's-edge and depreciation provisions, the deletion of obsolete refund provisions relating to the renter's credit, and correct a depreciation cross reference.

EFFECTIVE DATE

Unless otherwise specified, this bill would apply to taxable and income years beginning on or after January 1, 1999.

SPECIFIC FINDINGS

This bill would make changes affecting the following areas:

1. Deductibility of Meals Provided for the Convenience of the Employer.
2. Employer Deductions for Vacation and Severance Pay.
3. Certain Trade Receivables Ineligible for Mark-To-Market Treatment.
4. Exclusion of Minimum Required Distrib. from AGI for Roth IRA Conversions.
5. Farm Production Flexibility Contract Payments
6. Treatment of Certain Deductible Liquidating Distrib. of RICs and REITs.
7. Tax Treatment of Cash Options for Qualified Prizes.

8. Exclusion from Income for Employer-Provided Transportation Benefits.
9. Payments Received Pursuant to the Ricky Ray Hemophilia Relief Fund Act.
10. Waiver of estimated tax penalty.
11. 1998 Federal Technical Changes.
12. Provision removed by June 29, 1999, amendment.
13. Election to Expense the Cost of Certain Depreciable Assets Permitted Under the B&CTL.
14. Repeal of Capital Loss Limitation and Carryover Provisions for Corporations.
15. Profit Split Method for Computing Income for Corporations Filing Combined Reports. Provision removed by August 16, 1999, amendment.
16. Revise LLC Annual Franchise Tax Due Date to Date of Return.
17. Statute of Limitations for Disabled Taxpayers.
18. Elimination of AMT limitation on Personal Exemption Credits.
19. AMT Treatment of Charitable Contributions of Appreciated Property.
20. Taxation of Non and Part-Year Residents and the Alimony Deduction.

Except for item 15, the deletion of Profit Split Method for Computing Income for Corporations Filing Combined Reports, and the addition of items 17, 18, 19 and 20, the July 1, 1999, analysis still applies.

17. Statute of Limitations for Disabled Taxpayers.

EFFECTIVE DATE

This provision would apply to all periods of disability before, on or after the effective date of this bill. However, it would not apply to any claim barred by the SOL as of the effective date.

SPECIFIC FINDINGS

Current federal law requires a taxpayer to file a claim for refund within three years of the filing of the return or within two years of the payment of the tax, whichever period expires later (if no return is filed the two-year limit applies). A refund claim that is not filed within these time periods is rejected as untimely.

The IRS Reform Act suspends the SOL for certain refund claims for a period where the taxpayer is “financially disabled.” Individuals are “financially disabled” if they are unable to manage their financial affairs because of a medically determinable physical or mental impairment that is expected to result in death or to last for a continuous period of at least one year. An individual would not be financially disabled for any period that the individual’s spouse or any other person is legally authorized to act on that individual’s behalf in financial matters.

Current state law requires a taxpayer to file a claim for refund within four years from the due date (without regard to extensions) or one year from the date of payment of tax, whichever is later. In the case of a California waiver of the SOL, the period for filing a claim for refund is the period of the waiver or one year from the date of overpayment, whichever is later. In the case of a federal waiver, the period for filing a claim for refund is six months from the expiration of the federal waiver.

Current state law requires the taxpayer to notify FTB if the amount of gross income or deductions reported to the IRS for any year is changed, either by the taxpayer or federal authorities. The taxpayer has six months from the final federal determination date to report the change to FTB. Claims for refund must be filed within two years from the date of the final federal determination.

Current state law allows taxpayers to file a claim for refund up to seven years after the due date of the return in the case of bad debts, worthless securities or erroneous inclusion of recoveries.

This provision would conform state law to the IRS Reform Act provisions to suspend the SOL for certain refund claims when the taxpayer is "financially disabled."

Implementation Considerations

Implementation of this provision would occur during the department's normal annual system update.

FISCAL IMPACT

Departmental Costs

This provision would not significantly impact the department's costs.

Tax Revenue Estimate

Revenue losses from additional refunds issued would be on the order of $1 million annually based on federal projections.

18. Elimination of AMT limitation on Personal Exemption Credits.

PROGRAM HISTORY/BACKGROUND

In 1987, California enacted legislation that established an Alternative Minimum Tax (AMT) in lieu of the previous tax on preference income. The California legislation substantially conformed state law to the AMT provisions in effect at the federal level, which had been adopted as part of the Tax Reform Act of 1986. The AMT at both the federal and state levels was established to ensure that no taxpayers with substantial economic income could completely avoid tax liability by using exclusions, deductions, and credits (tax preference items). As discussed below, taxpayers are allowed an AMT exemption deduction in computing AMT. Prior to 1997, the AMT exemption deduction amounts were: $40,000 for married taxpayers filing joint returns; $30,000 for individuals filing as either single or as a head of household; and $20,000 for married taxpayers filing separate returns. These AMT exemption deduction amounts were increased in 1997 to $45,000 for married taxpayers filing joint returns; $33,750 for individuals filing as either single or as a head of household; and $22,500 for married taxpayers filing separate returns. Also, the AMT exemption deduction amounts will be adjusted for inflation after the 1999 taxable year.

The AMT essentially is a mechanism for recapturing some of the tax benefits available to higher-income taxpayers. Although these tax benefits are allowed under current law, the AMT effectively limits the extent to which, when taken collectively, they can reduce tax liability.

The AMT can affect tax liability in either or both of two ways: First, an AMT liability can be assessed in excess of the taxpayer's regular tax liability. Second, the AMT calculation can result in a reduction in the amount of tax credits that a taxpayer is allowed, thus effectively increasing regular tax.

Differences between the structure of state and federal laws necessitate some differences between state and federal AMT provisions. One difference is the treatment of the personal exemption. State law allows a personal exemption in the form of a credit; federal law provides a personal exemption in the form of a deduction. For federal AMT purposes, the personal exemption deduction may not be used in the calculation of alternative minimum taxable income (AMTI). State law conformed to this federal provision by not allowing the personal exemption credit to reduce regular tax below tentative minimum tax (TMT).

To claim personal exemption credits, taxpayers must first calculate their TMT to determine whether their credits will be limited. The interaction of AMT with the personal exemption credit adds complexity to personal income tax return preparation for approximately 3 million taxpayers who must make the calculation only to determine that their personal exemption credit is not limited by TMT. This interaction also increases the tax liability of approximately 30,000 moderate-income taxpayers whose personal exemption credits would be reduced by the TMT interaction.

Prior to 1997, each exemption credit amount (personal, dependent, blind) was the same. For the 1997 taxable year, each exemption credit amount was $68. The credit amount is adjusted annually for inflation.

In 1997, SB 1233 (Ch. 612) increased the dependent exemption credit amount to $120 for the 1998 taxable year and to $222 beginning in the 1999 taxable year. The increased credit was not to be adjusted for inflation for the 1999 taxable year.

In 1998, AB 2797 (Ch. 322) increased the dependent exemption credit amount from $120 to $253 for the 1998 taxable year and from $222 to $227 for the 1999 taxable year and thereafter. The increased credit will be adjusted for inflation after the 1999 taxable year.

SPECIFIC FINDINGS

Existing federal law provides five tax brackets ranging from 15% to 39.6%. It also provides a two-tiered personal income AMT rate system. The AMT rate is 26% of the "taxable excess" that does not exceed $175,000 and 28% of the "taxable excess" that exceeds $175,000. "Taxable excess" is the amount of alternative minimum taxable income (AMTI) that exceeds the exemption deduction. The exemption deduction allowed against AMTI is: $45,000 for married taxpayers filing joint; $33,750 for single or head of household taxpayers; and $22,500 for married taxpayers filing separate.

Prior to 1998, under federal law the nonrefundable personal tax credits (i.e., the dependent care credit, the credit for the elderly and disabled, the adoption credit, the child tax credit, the credit for interest on certain home mortgages, the HOPE Scholarship and Lifetime Learning credits, and the D.C. homebuyer's credit) were allowed only to the extent that the individual's regular tax liability exceeded the individual's TMT. For tax years beginning in 1998, federal law allows the nonrefundable personal credits to offset the individual's regular tax in full.

Existing state law provides six tax brackets ranging from 1% to 9.3% and a personal income AMT rate of 7%.

California AMT is calculated by increasing regular taxable income by specific tax preference items and making other adjustments for items for which treatment differs under AMT rules. The resulting figure is AMTI, from which an AMT exemption deduction is subtracted. The AMT exemption deduction amounts vary depending on filing status and are indexed annually for inflation. For 1997, the AMT exemption deduction amounts are: $45,000 for married taxpayers filing joint returns; $33,750 for individuals filing as either single or as a head of household; and $22,500 for married taxpayers filing separate returns. The exemptions are phased out for taxpayers with adjusted gross income over specified amounts. The excess of AMTI over the AMT exemption deduction, multiplied by the 7% AMT rate, is TMT. Tentative minimum tax is compared to regular tax before credits; the amount by which TMT exceeds regular tax before credits is the alternative minimum tax. The Personal Income Tax Law (PITL) provides a variety of credits, some of which may be used to reduce the regular tax below TMT. However, the law specifies that certain credits cannot reduce regular tax to an amount less than the TMT. In effect, taxpayers lose some of the value of the credits that may not be carried forward and may not reduce regular tax below TMT.

Existing state law provides various exemption credits against tax, including a personal exemption and exemptions for dependents, blind persons, and individuals 65 or older. Exemption credit amounts are allowed as follows for the 1998 taxable year:

Exemption Type	Amount (1998)
Personal	$70
Blind	$70
Dependent	$253

The exemption credit amounts are indexed annually for inflation as measured by changes in the California Consumer Price Index. Exemption credits are not refundable and may not be carried over to future years. Exemption credits are subject to two limitations:

1. Exemption credits begin to phase out at federal AGI levels over the amounts listed below:

Filing Status	AGI (1998)
Single/Head of Household	$161,044
Married Filing Separate	$107,362
Married Filing Joint	$214,725

2. Exemption credits are limited to the amount by which regular tax before credits exceeds tentative minimum tax (TMT).

This provision would eliminate the tentative minimum tax limitation on personal exemption credits by allowing the personal exemption credits to reduce regular tax below tentative minimum tax.

Policy Considerations

This bill would ensure that 30,000 additional moderate-income taxpayers would be able to take full advantage of recently increased dependent exemption amounts. Also, this bill would reduce the complexity of filing a PIT return by eliminating the need for some 3 million moderate-income taxpayers, with no preferences, to complete the AMT personal exemption credit limitation worksheet to determine whether their personal exemption credits are limited.

Implementation Considerations

The implementation of this provision would require some changes to existing tax forms and instructions, which could be accomplished during the normal annual update.

FISCAL IMPACT

Departmental Costs

To the extent this proposal would reduce the number of telephone calls from taxpayers regarding how to complete the complex AMT calculation (Schedule P) and the number of errors that must be addressed during return processing, it would generate significant cost savings.

Tax Revenue Estimate

Based on tax model simulations, eliminating the TMT interaction with regard to all exemption credits would result in revenue losses of $1.5 million annually beginning with the 1999-2000 fiscal year, benefiting approximately 30,000 filers.

This proposal would eliminate the need for approximately 3 million taxpayers to complete the AMT personal exemption credit limitation worksheet to determine whether their personal exemption credits are limited.

19. AMT Treatment of Charitable Contributions of Appreciated Property.

SPECIFIC FINDINGS

Existing state and federal laws allow deductions from income for charitable contributions. Individuals generally can deduct up to 30% their adjusted gross income for contributions of appreciated property. Corporations can deduct up to 10% of their taxable income.

Under federal and state laws, in computing taxable income, a taxpayer who itemizes deductions generally is allowed to deduct the fair market value of property contributed to a charitable organization including certain appreciated property donated to a charitable organization. However, in the case of a charitable contribution of inventory or other ordinary income property, short-term capital gain property, the amount of the deduction is limited to the taxpayer's basis in the property. In the case of a charitable contribution of tangible personal property, a taxpayer's deduction is limited to the adjusted basis in the property if the use by the recipient charitable organization is unrelated to the organization's tax-exempt purpose.

Under federal law, contributions of appreciated property are not treated as tax preference items.

Under state law, for purposes of computing AMT, the amount of any deduction (generally the fair market value) for charitable contributions of appreciated property (real, personal, or intangible) that exceeds the taxpayer's adjusted basis in the property is treated as a tax preference item. In most cases, the B&CTL AMT calculation is not impacted because the allowable charitable contribution deduction for regular tax is limited to the adjusted basis of the contributed property.

This bill would conform both the PITL and the B&CTL to the federal repeal of the tax preference treatment of contributions of appreciated property in computing AMT.

FISCAL IMPACT

Departmental Costs

This bill would not significantly impact the department's costs.

Tax Revenue Estimate

Revenue losses from this bill are estimated to be:

Estimated Revenue Impact of Contribution of Appreciated Property in AB 1208 Effective January 1, 1999 Enacted After June 30, 1999 (Millions)			
	1999-00	2000-01	2001-02
Personal Income Tax	-$5	-$5	-$5
Bank & Corporation Tax	Minor *	Minor *	Minor *
Total Impact	-$5	-$5	-$5

* Minor loss, less than $500,000 annually.

This estimate was based on federal conformity estimates for prior years and updated reflecting corporate profits as projected by the Department of Finance.

20. Taxation of Non and Part-Year Residents and the Alimony Deduction.

EFFECTIVE DATE

This bill provides language that would apply the nonresident alimony deduction changes to all taxable years in which the statute of limitations for issuing proposed assessments or allowing claims for refund remains open. The purpose of the retroactive application is to avoid potential disputes with taxpayers over the continued enforcement of an unconstitutional statute.

LEGISLATIVE HISTORY

AB 2380 (Stats. 1984, Ch. 938) added the nonresident alimony deduction provisions.

This provision was contained in SB 2234 (1998). The Governor vetoed SB 2234 on September 29, 1998 due to a provision contained in SB 2234 that is unrelated to the alimony deduction.

SPECIFIC FINDINGS

Federal Constitution

The United States Constitution, under what is known as the Privileges and Immunities Clause, provides that the citizens of each state shall be entitled to all the privileges and immunities of the citizens of the several states. The United States Supreme Court has interpreted this clause, as it applies to taxes, as follows:

> "...One right thereby secured is the right of a citizen of any State to remove to and carry on business in another without being subjected in property or person to taxes more onerous than the citizens of the latter State are subjected to."[1]

In *Lunding*, the Supreme Court struck down a New York statute which denied nonresidents an alimony deduction in computing New York adjusted gross income. The court held that New York's categorical denial of the deduction to nonresidents violated the Privilege and Immunities clause of the Federal Constitution,[2] stating that New York had not substantially justified its discriminatory treatment of nonresidents. In striking down the New York statute, the Court accepted the petitioners' determination that the deduction should be allowed in the same ratio that their business income was attributable to New York sources.[3]

State Law

The existing California Personal Income Tax Law (PITL) imposes tax on the basis of residency and source. Residents and part-year residents (while they are residents) are taxed on all income earned, regardless of source. Nonresidents and part-year residents (while they are nonresidents) are taxed only on income from sources within California.

Existing law imposes an income tax on the income of nonresidents that is derived from or attributable to sources within this state. "Income from sources within this state" is defined by regulation as income from tangible or intangible property located or having a situs in this state and income from any activity carried on in this state, regardless of whether carried on in intrastate,

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[1] *Lunding Et Ux. v. New York Appeals Tribunal et al.*(1998) 118 S.Ct. 766 (citations and internal quotation marks omitted).

[2] Although New York's nonresident alimony statute, New York Tax Law Section 631(b)(6), is worded differently than California's Revenue and Taxation Code Section 17302, the effect is identical.

[3] It is unclear whether in *Lunding* the petitioner computed his deduction by applying the ratio of New York to total business income or adjusted gross income, or if, in his situation, the ratio was the same. From a constitutional standpoint, however, it makes little difference exactly how the deduction is prorated so long as the method can be substantially justified and does not result in a categorical denial of the deduction to nonresidents.

interstate, or foreign commerce. The law provides six personal income tax rate brackets ranging from 1% to 9.3%.

Existing law requires nonresident taxpayers to include income from all sources to determine the rate at which California tax is imposed on their California source income. The total taxable income is computed as if the nonresident were a resident for the entire year. The amount of tax that would be imposed on the total income is prorated based upon the ratio of California-sourced adjusted gross income to total adjusted gross income from all sources to determine the tax imposed on the California-sourced taxable income. The California tax before personal exemption is the tax that bears the same ratio to total tax, as California source adjusted gross income bears to total adjusted gross income. This method effectively results in the nonresident or part-year resident computing their tax at the same graduated tax brackets as used for computing the tax of a resident.

In determining California-sourced income, **existing law** does not allow a deduction for alimony payments made by a nonresident or a part-year resident (while a nonresident) even if paid to a California resident. This provision denying a deduction was first introduced in 1957. The justification appears to have been that California does not tax nonresident taxpayers on alimony income and, thus, should not allow nonresidents an alimony deduction.

California's categorical denial of an alimony deduction to nonresidents is unique in that business and investment expenses are allowed as deductions in computing California adjusted gross income if the expenses are attributable to the production of California source income. Itemized deductions are, in effect, allowed in the ratio that California adjusted gross income bears to total adjusted gross income because the California method requires that tax on total taxable income (which includes total itemized deductions) be prorated by the ratio of California adjusted gross income to total adjusted gross income.

The effect of **existing state law** is identical to the New York statute, and there appear to be no arguments that could reasonably be advanced to support its application that were not presented to and rejected by the Court in *Lunding*. Thus, it appears that the existing state law that denies the alimony deduction to nonresidents facially violates the Privilege and Immunities Clause of the Federal Constitution.

The California Constitution prohibits an administrative agency from refusing to enforce a California statute on the grounds that it is unconstitutional, unless a state appellate court has determined that such statute is unconstitutional.

This bill would provide that nonresidents prorate the deduction for alimony payments in the same manner as the tax is prorated. This ratio would compare California-sourced adjusted gross income (without regard to the alimony deduction) to total adjusted gross income from all sources (without regard to the alimony deduction).

This bill also would provide that a part-year resident would be allowed an alimony deduction for the full amount paid during the portion of the year the individual is a resident and a prorated amount for the portion of the year the individual is a nonresident.

Policy Considerations

The California Constitution does not permit the Franchise Tax Board to take any action that could be construed as a refusal to enforce the existing law that denies the nonresident alimony deduction. While the "refuse to enforce" phrase of Article 3, Section 3.5 is nowhere defined, it certainly precludes the Franchise Tax Board from allowing claims for refund based upon application of the methodology the Court embraced in *Lunding*.

This bill, coupled with the retroactive operative date, would relieve the Franchise Tax Board from defending R&TC Section 17302 in administrative and judicial proceedings and thus would avoid the expenditure of resources in disputes when the probable outcome would be that Section 17302 would be declared by an appellate court to be unconstitutional.

This bill would avoid discrimination against nonresident taxpayers currently denied an alimony deduction.

By allowing a pro-rata deduction for alimony, California would place alimony on a par with other deductions that are allowed to offset, either directly or indirectly, California source income and would recognize that the amount of alimony paid generally correlates with a taxpayer's total income or wealth and, thus, bears some relationship to earnings, regardless of their source.

Implementation Considerations

Implementing the nonresident alimony provision would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update. The department would receive additional amended returns for the years for which the statute of limitations is open, but this workload is not expected to be significant.

FISCAL IMPACT

Departmental Costs

The nonresident alimony provision would not significantly impact the department's costs.

Tax Revenue Estimate

The nonresident alimony provision is estimated to result in losses under the PITL as shown in the following table.

Retroactive to Open Years Enactment Assumed After June 30, 1999 $ Millions		
1999-00	2000-01	2001-02
-$5	-$2	-$2

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Revenue Discussion

This revenue estimate assumes that the current alimony deduction provision will not overturned by the appellate court a unconstitutional over the next three years.

This estimate was calculated from a microsimulation analysis of nonresident returns on which an alimony deduction was claimed. The tax liability of each return was recalculated using the proposed method of accounting for alimony payments. This provision would allow taxpayers to file amended returns for all open years (back to 1995, or earlier if the statute of limitations remains open under a waiver or other extension). For this estimate, it is assumed that the probability of filing an amended return would be about 10% for the 1995 tax year and that the probability would increase incrementally to 50% for 1998. It is assumed that for tax years 1999 and beyond, taxpayers would be in full compliance.

Tax Revenue Estimate Recap

	Assembly Bill 1208 (APTBA August 12, 1999)		Personal Income Tax			Bank & Corporation Tax		
			(in millions)			(in millions)		
	Description		1999-0	2000-1	2001-2	1999-0	2000-1	2001-2
1	Exclusion of value of meals to employee		-$1	-$1	-$1	-	-	-
2	Employer Deductions for Vacation and Severance Pay	a/	Minor Gain	Minor Gain	Minor Gain	$2	$3	$3
3	Certain Trade Receivables Ineligible for Mark-To-Market Treatment		Minor Gain	Minor Gain	Minor Gain	$12	$18	$18
4	Exclusion-Min. Req. Distributions from AGI for Roth IRA Conversions	b/	-	-	-	-	-	-
5	Farm Production Flexibility Contract Payments		Insignificant	Insignificant	Insignificant	Insignificant	Insignificant	Insignificant
6	Certain Deductible Liquidating Distributions of RICs & REITs	c/				$40	$5	-
7	Tax Treatment of Cash Options for Qualified Prizes		Minor Loss	Minor Loss	Minor Loss	-	-	-
8	Exclusion from Income for Employer-Provided Transportation Benefits		Insignificant	Insignificant	Insignificant	Insignificant	Insignificant	Insignificant
9	Payments Received Pursuant to the Ricky Ray Hemophilia Relief Fund Act		Insignificant	Insignificant	Insignificant	-	-	-
10	Waiver of Estimate Tax Penalty		No Impact	No Impact	No Impact	No Impact	No Impact	No Impact
11	1998 Federal Technical Changes		Insignificant	Insignificant	Insignificant	Insignificant	Insignificant	Insignificant
12	Deleted		-	-	-	-	-	-
13	B & C Section 179 Expensing Allowance		-	-	-	-$36	-$28	-$27
14	Capital Loss Carry-overs	d/	-	-	-	-$5	$1	$3
15	Deleted		-	-	-	-	-	-
16	LLC Annual Franchise Tax Due Date	e/				-$15	-$1	-$1
17	Statute of Limitations for Disabled Taxpayers		-$1	-$1	-$1	-	-	-
18	Personal Exemption Credit/AMT		-$1.5	-$1.5	-$1.5	-	-	-
19	AMT Treatment of Charitable Contributions		-$5	-$5	-$5	Minor Loss	Minor Loss	Minor Loss
20	Non-Resident Alimony Deduction		-$5	-$2	-$2	-	-	-
	TOTALS		-$13.5	-$10.5	-$10.5	-$2.0	-$2.0	-$4.0
	Minor = Loss or gain of less than $500,000							
a/	Baseline revenue gains are projected to be $65 million for 1999-0 and $3 million thereafter.							
b/	Baseline revenue gains are projected to be $84 million for 2004-5, $101 million for 2005-6, and $99 million for 2006-7.							
	Conformity gains are estimated to be $1 million annually beginning with the fiscal year 2004-5.							
c/	Baseline revenue gains are projected to be $15 million annually beginning in 1998-9,							
d/	Assumes Regulation 25106.5 is in place.							
e/	This provision is a timing issue regarding the payment of the minimum tax liability.							

BOARD POSITION

Support.

On July 6, 1999, the Franchise Tax Board voted 2-0 to support the June 29, 1999, version of this bill.